

WORLDCOM

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November 8, 2000

Hand Delivery

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

RECEIVED

NOV 8 2000

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: EX PARTE -- CC Docket No. 00-176: Applications of Verizon
Pursuant to Section 271 of the Telecommunications Act of 1996 to
Provide InterLATA Services in Massachusetts

Dear Ms. Salas:

On November 7, 2000, Michael Pelcovits, Brad Stillman, Mark Schneider and I on behalf of WorldCom, Inc. met with Dorothy Attwood, Glenn Reynolds and Jane Jackson of the Common Carrier Bureau to discuss the impact of UNE rates on local competition, including Verizon's October 13 switching and transport rates in Massachusetts, and other issues in Verizon's pending section 271 application, as set forth in the attached materials which were provided at the meeting.

In accordance with section 1.1206 of the Commission's rules, 47 C.F.R. § 1.1206, an original and one copy of this Notice are being filed with your office.

Sincerely,


Keith L. Seat

Enclosures

cc: (w/o encls.): Dorothy Attwood, Glenn Reynolds, Jane Jackson

cc: (w/encls.): Susan Pie, Josh Walls, Cathy Carpino

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UNE-P Price Squeeze Prevents Robust Local Competition

November 7, 2000

UNE-P Is Key to Widespread Local Residential Competition

- UNE-Platform necessary for ubiquitous residential competition
 - Cable/other facilities have limited reach, limited build-out
 - Non-UNE-P expansion slow, capital requirements high
 - Resale discount better than most states, but still a loser
- Where UNE-P pricing is minimally acceptable (and other elements in place), WorldCom will enter:
 - New York entered 12/98
 - Texas entered 4/00
 - Pennsylvania entered 8/00
 - Michigan and Illinois targeted for entry in near term
- Price squeeze prevents local entry and robust competition in many states

Comparison of Massachusetts UNE-P Pricing with States WorldCom Has Entered

	<u>MA--DTE</u>	<u>MA--Z-Tel</u>	<u>MA--10/13</u>	<u>NY</u>	<u>TX</u>	<u>PA</u>
Households (000)	2,376	2,376	2,376	5,973	5,117	3,398
Zone Density	100%	100%	100%	100%	100%	100%
<u>Revenue:</u>						
Local	\$26.65	\$26.65	\$26.65	\$32.74	\$22.97	\$22.42
Access	<u>\$4.34</u>	<u>\$4.34</u>	<u>\$4.34</u>	<u>\$4.13</u>	<u>\$4.90</u>	<u>\$5.38</u>
Total Revenue (1)	\$30.99	\$30.99	\$30.99	\$36.87	\$27.87	\$27.80
<u>Telco:</u>						
Unbundled switch port	\$4.49	\$4.49	\$2.00	\$2.50	\$2.90	\$1.90
Unbundled loop	\$15.66	\$15.66	\$15.66	\$14.81	\$14.15	\$14.01
UNE switching & transport (2)	<u>\$21.68</u>	<u>\$14.57</u>	<u>\$10.50</u>	<u>\$10.60</u>	<u>\$4.17</u>	<u>\$5.02</u>
Total Telco (3)	\$41.83	\$34.72	\$28.16	\$27.91	\$21.22	\$20.93
Gross Margin (line/month)	(\$10.84)	(\$3.73)	\$2.83	\$8.96	\$6.65	\$6.87

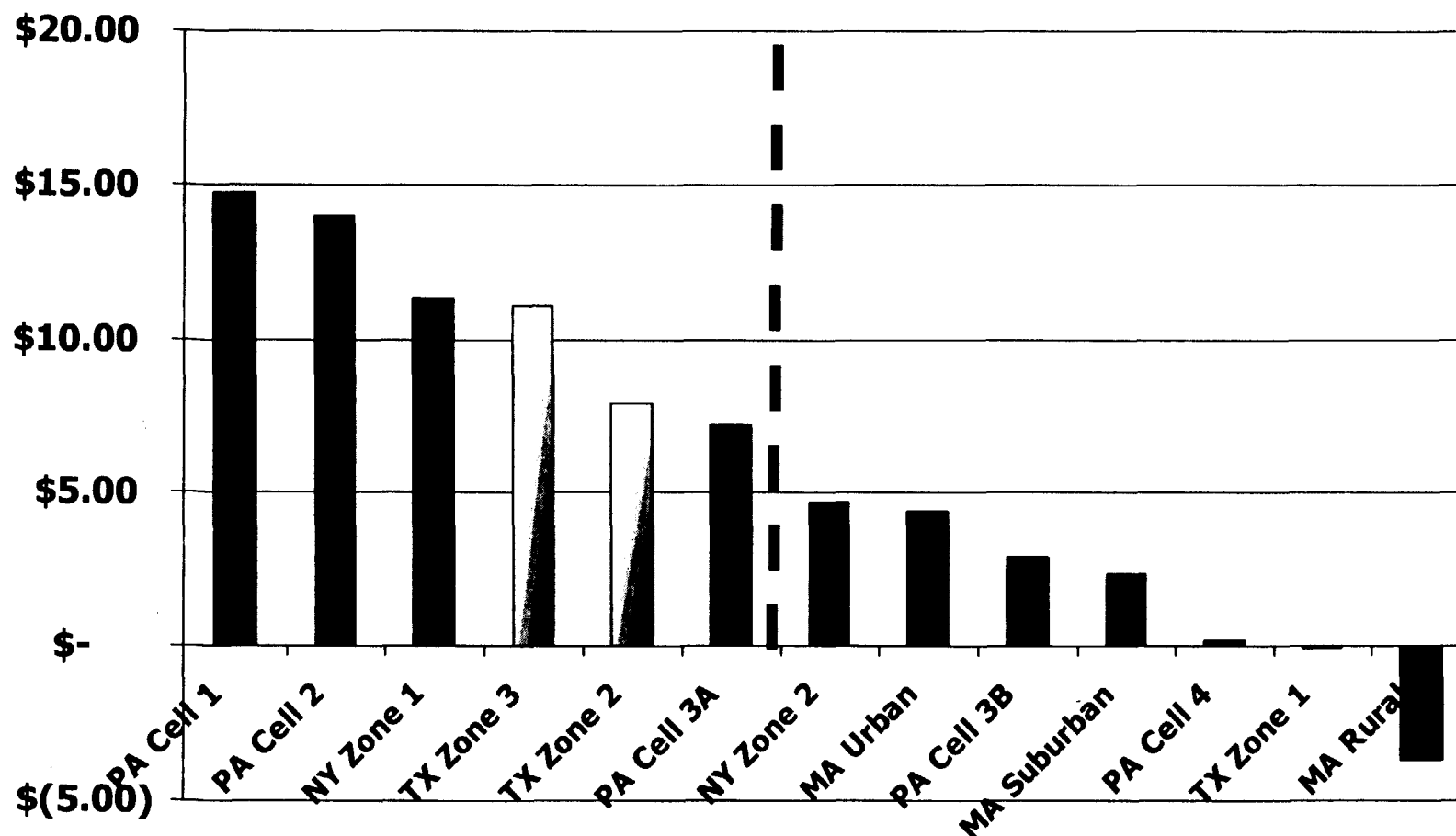
1 BOC retail rates, without discount. Includes line fee, usage, 1 feature (2 in TX), and SLC.

2 Reflects MA DTE's Sept. 7, 2000 order which reduced charges on intra-End Office calls, and slight revision in call-flow methodology.

3 Does not include Non-Recurring charges (NRCs).

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

Gross Margin by Zone in Massachusetts and States WorldCom Has Entered



MA Metro zone omitted as de minimis, as it contains only 2% of households in state.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

Massachusetts (10/13/00) - Verizon (by zone)

	<u>MA--STATE</u>	<u>METRO</u>	<u>URBAN</u>	<u>SUBURBAN</u>	<u>RURAL</u>
Households (000)	2,376	48	665	1,497	166
Zone Density	100%	2%	28%	63%	7%
<u>Revenue:</u>					
Local	\$26.65	\$26.65	\$26.65	\$26.65	\$24.53
Access	<u>\$4.34</u>	<u>\$4.34</u>	<u>\$4.34</u>	<u>\$4.34</u>	<u>\$4.34</u>
Total Revenue (1)	\$30.99	\$30.99	\$30.99	\$30.99	\$28.87
<u>Telco:</u>					
Unbundled switch port	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00
Unbundled loop	\$15.66	\$7.54	\$14.11	\$16.12	\$20.04
UNE switching & transport (3)	<u>\$10.50</u>	<u>\$10.41</u>	<u>\$10.50</u>	<u>\$10.50</u>	<u>\$10.50</u>
Total Telco (2)	\$28.16	\$19.95	\$26.61	\$28.62	\$32.54
Gross Margin	\$2.83	\$11.04	\$4.38	\$2.37	(\$3.67)

1 Includes line fee, usage, touch tone, 1 feature (call waiting @ \$2.84) and SLC. Reflects revenue in the Boston Area (~1/3 of Verizon-MA). Outside of this area, revenue would be \$2.12 lower or \$24.53. Therefore, revenue in the Suburban zone, and possibly the Urban zone, is overstated (as is the revenue in the state average).

2 Does not include \$0.19 NRC.

3 Reflects MA DTE's 09/07/2000 order, whereby switching applies only once on Intra-EO calls. Also reflects slight revision in call flow methodology.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

New York - Verizon (by zone)

	<u>State Average</u>	<u>Urban Zone 1</u>	→ <u>Rural Zone 2</u>
Households (000)	5,973	3,846	2,128
Distribution	100%	64%	36%
<u>Revenue:</u>			
Local	\$32.74	\$32.64	\$32.91
Access	<u>\$4.13</u>	<u>\$4.13</u>	<u>\$4.13</u>
Total Revenue (1)	\$36.87	\$36.77	\$37.04
<u>Telco:</u>			
Unbundled switch port	\$2.50	\$2.50	\$2.50
Unbundled loop	\$14.81	\$12.36	\$19.24
UNE switching & transport	<u>\$10.60</u>	<u>\$10.60</u>	<u>\$10.60</u>
Total Telco (2)	\$27.91	\$25.46	\$32.34
Gross Margin	\$8.96	\$11.31	\$4.70

1 Includes line fee, usage, 1 feature (Call Waiting @ \$5.19), and SLC. Reflects message rate product.

2 Does not include \$3.73 NRC.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

Texas - SBC (by zone)

	<u>State Average</u>	<u>Rural Zone 1</u>	<u>Zone 2</u>	<u>Urban Zone 3</u>
Households (000)	5,117	1,061	2,398	1,657
Distribution	100%	21%	47%	32%
<u>Revenue:</u>				
Local	\$22.97	\$21.73	\$22.74	\$24.10
Access	\$4.90	\$4.90	\$4.90	\$4.90
Total Revenue (1)	\$27.87	\$26.63	\$27.64	\$29.00
<u>Telco:</u>				
Unbundled switch port	\$2.90	\$3.25	\$2.15	\$1.94
Unbundled loop	\$14.15	\$18.98	\$13.65	\$12.14
UNE switching & transport	\$4.17	\$4.44	\$3.91	\$3.85
Total Telco (2)	\$21.22	\$26.67	\$19.71	\$17.93
Gross Margin	\$6.65	(\$0.04)	\$7.93	\$11.07

1 Includes line fee, usage, 2 features (Call Waiting @ \$2.80, Caller ID @ \$6.15), above average LD, and SLC. Reflects unlimited local product for Texas.

2 Does not include \$30.29 NRC.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

Pennsylvania - Verizon (by zone)

		Urban				Rural
	State Average	Cell 1	Cell 2	Cell 3 "A"	Cell 3 "B"	Cell 4
Households (000)	3,398	226	618	1,364	184	1,007
Distribution	100%	7%	18%	40%	5%	30%
Revenue:						
Local	\$22.42	\$26.53	\$26.53	\$22.79	\$18.44	\$19.21
Access	<u>\$5.38</u>	<u>\$5.38</u>	<u>\$5.38</u>	<u>\$5.38</u>	<u>\$5.38</u>	<u>\$5.38</u>
Total Revenue (1)	\$27.80	\$31.91	\$31.91	\$28.17	\$23.82	\$24.59
Telco:						
Unbundled switch port	\$1.90	\$1.90	\$1.90	\$1.90	\$1.90	\$1.90
Unbundled loop (3)	\$14.01	\$10.25	\$11.00	\$14.00	\$14.00	\$17.50
UNE switching & transport	<u>\$5.02</u>	<u>\$5.02</u>	<u>\$5.02</u>	<u>\$5.02</u>	<u>\$5.02</u>	<u>\$5.02</u>
Total Telco (2)	\$20.93	\$17.17	\$17.92	\$20.92	\$20.92	\$24.42
Gross Margin	\$6.87	\$14.74	\$13.99	\$7.25	\$2.90	\$0.17

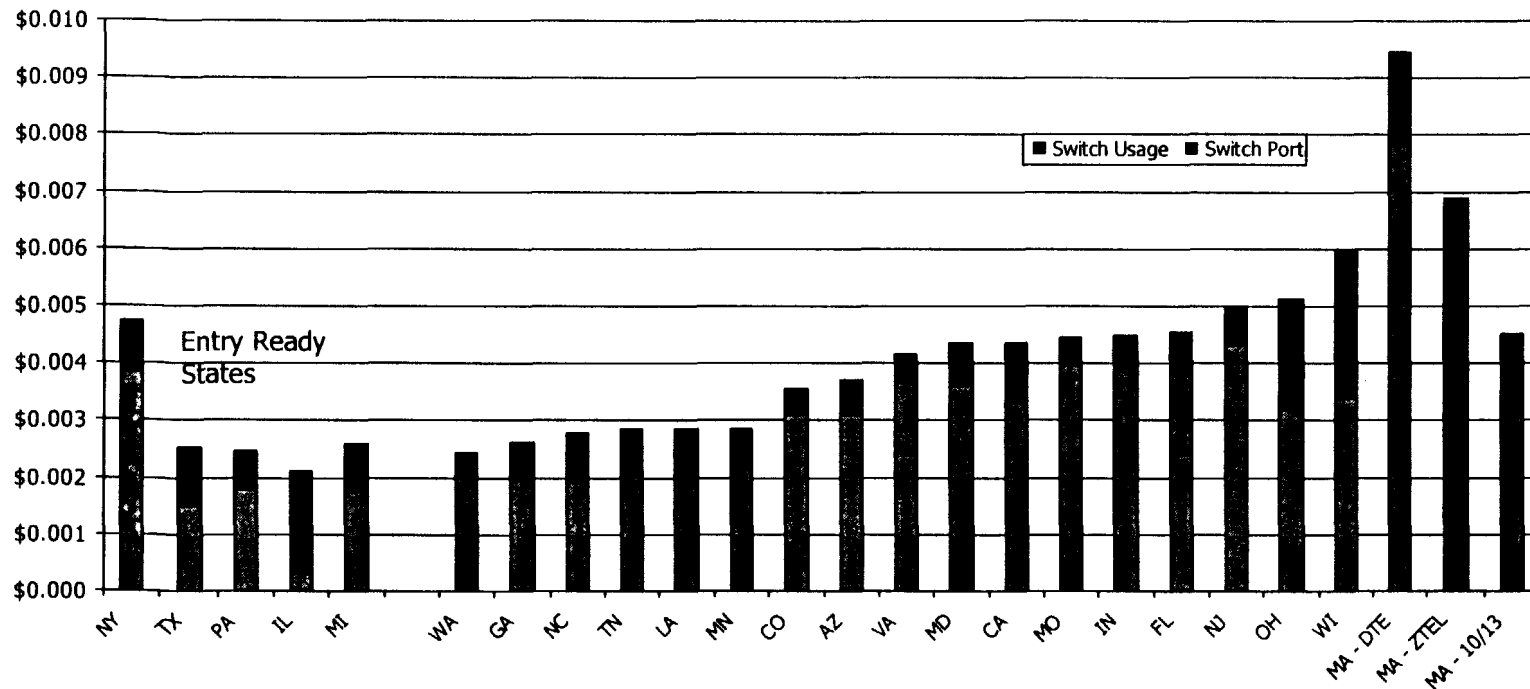
1 Includes line fee, usage, 1 feature (Call Waiting @ \$3.62), and SLC. Reflects Unlimited Band 1 product.

2 Does not include \$1.06 NRC.

3 The average loop rate corresponds to the tariffed rate to be effective 9/30/2000.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

UNE Costs Are Too High for Competitive Entry in Many States: Switching Rates in Largest States



- Rates per minute in BOC regions of the largest states have been calculated by dividing the estimated monthly switching, transport and port costs per line by total local and long distance minutes (originating & terminating).
- The port charge in IL includes unlimited switching at no extra charge; the effective switching rate is the result of other elements, including transport.
- Reflects MA DTE's 09/07/2000 order, whereby switching applies only once on Intra-EO calls. Also reflects slight revision in call flow methodology.

Verizon's Section 271 Application for Massachusetts Should Be Denied:

**Verizon's Ongoing Price Squeeze and Other
Barriers Prevent Robust Local Exchange
Telephone Competition in Massachusetts**

November 1, 2000

Ongoing Price Squeeze

Ongoing UNE-P Price Squeeze Prevents Robust Local Competition

- Switching Rates that Were Found Reasonable in New York Where They Enabled Competition Are Not Reasonable in Massachusetts Where They Do Not
- NY Commission Acknowledges that Switching Rates Are Flawed Due to Verizon Misrepresentations
- Customer Usage Has Increased from Internet, Etc.
 - Per minute rates should be lower
 - Competitive consequences of switching element heightened
- Verizon Has Not Shown Loop Rates Are TELRIC
 - Loop rates appear to be excessive due to excessive cost of capital and possibly other factors
 - Verizon refusing to provide spreadsheet for loop costs
 - Verizon rebuffed WorldCom's efforts to check computations of loop rates

Comparison of Massachusetts UNE-P Pricing with States WorldCom Has Entered

	<u>MA--DTE</u>	<u>MA--Z-Tel</u>	<u>MA--10/13</u>	<u>NY</u>	<u>TX</u>	<u>PA</u>
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Local	\$26.65	\$26.65	\$26.65	\$32.74	\$22.97	\$22.42
Access	<u>\$4.34</u>	<u>\$4.34</u>	<u>\$4.34</u>	<u>\$4.13</u>	<u>\$4.90</u>	<u>\$5.38</u>
Total Revenue (1)	\$30.99	\$30.99	\$30.99	\$36.87	\$27.87	\$27.80
<u>Telco:</u>						
Unbundled switch port	\$4.49	\$4.49	\$2.00	\$2.50	\$2.90	\$1.90
Unbundled loop	\$15.66	\$15.66	\$15.66	\$14.81	\$14.15	\$14.01
UNE switching & transport (2)	<u>\$21.68</u>	<u>\$14.57</u>	<u>\$10.50</u>	<u>\$10.60</u>	<u>\$4.17</u>	<u>\$5.02</u>
Total Telco (3)	\$41.83	\$34.72	\$28.16	\$27.91	\$21.22	\$20.93
Gross Margin (line/month)	(\$10.84)	(\$3.73)	\$2.83	\$8.96	\$6.65	\$6.87

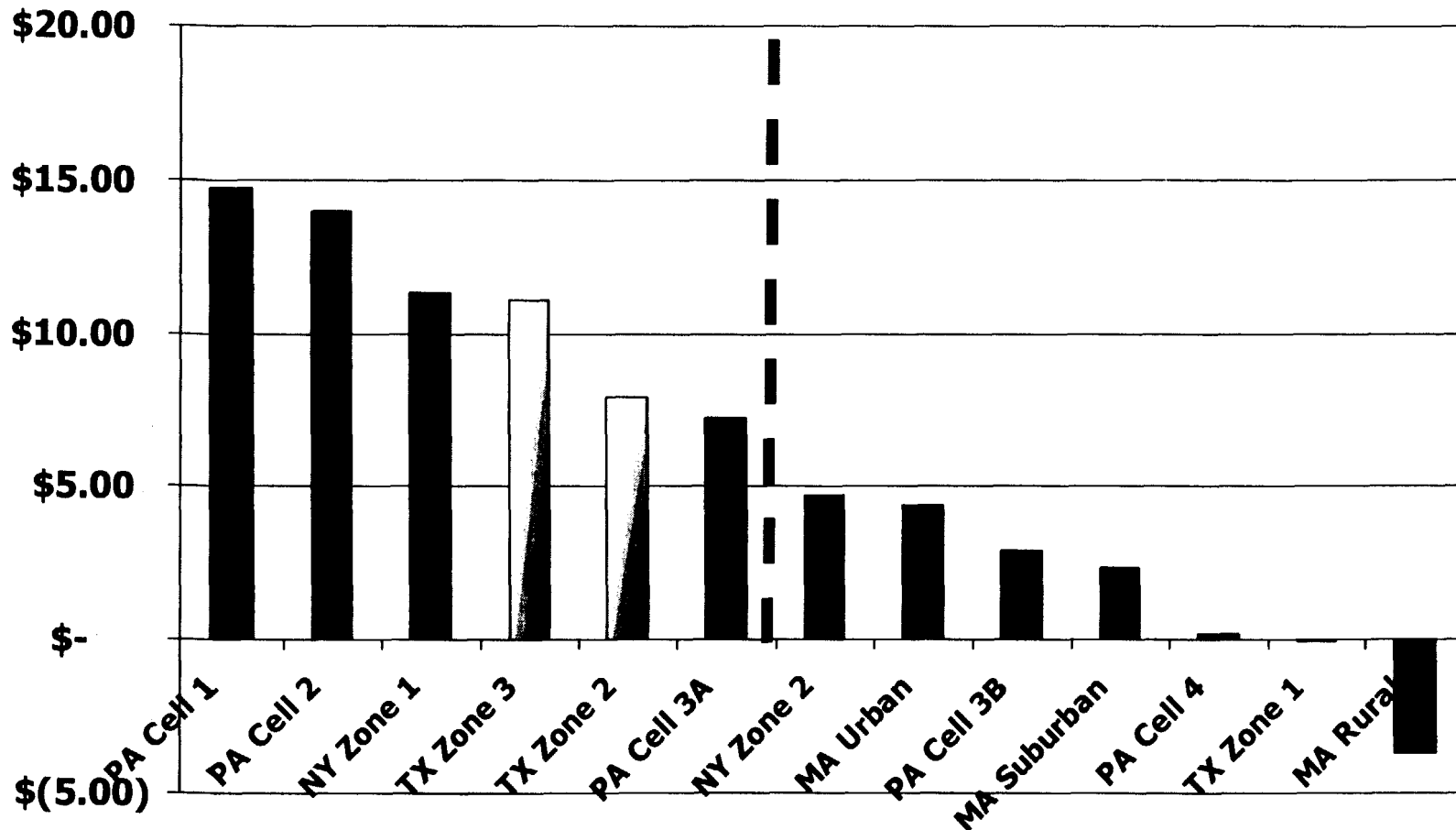
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3 Does not include Non-Recurring charges (NRCs).

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

Gross Margin by Zone in Massachusetts and States WorldCom Has Entered



MA Metro zone omitted as de minimis, as it contains only 2% of households in state.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

Verizon's New Rates Should Not Be Considered in Current 271 Application

- Impropropriety of Verizon's Gamesmanship Apparent on Face of Oct. 13 Tariff Adopting Certain New York Rates
 - After four years, new rates filed on business day before comments from interested parties due
 - Support for rates not provided
- Disrespect for Governmental Agencies and Proper Process Must Be Rebuffed
- No Fair Opportunity for CLECs to Comment on (Much Less Use) New Rates, or DOJ or FCC to Fully Consider
- Verizon's 271 Application Must Be Judged Based on Facts Presented in Its Case as Filed, Despite Verizon Abandoning 1996 Rates

Considerations Previously Permitting Acceptance of NY Rates Are Not Present Here

- Massachusetts Regulatory Environment Unlike NY
 - Massachusetts Commission (DTE) Refuses to Open Up Pricing Docket
 - DTE Defends 1996 Rates as TELRIC
 - DTE Claims Price Squeeze is Irrelevant
- NY Commission Acknowledges that Switching Rates Are Flawed
 - Verizon Made Misrepresentations that Inflated Rates
- Pricing Case Under Way to Correct Rates in NY

More Recent and Better Pricing Data than New York's Are Now Available

- Unreasonable to Rely on Flawed 1997 NY Rates When More Recent and Better Pricing Data Now Available
 - Costs of Switching Have Declined Since MA and NY Cost Studies
- Recent Pennsylvania Proceedings Adopted Switching Rates Far Below Rates in NY
 - Upheld in State Court Appeal in October 2000
- Recent FCC Switching Cost Estimate Not Available When NY Decided Switching Costs
 - April 1997 NY Estimate: Average total cost \$193 per line
 - Data from New York Telephone depreciation studies, covers 33 switches purchased in 1993 and 1994
 - Nov. 1999 FCC Estimate: Average total cost \$117 per line
 - Data from depreciation studies (946 observations) and Rural Utilities Service (139 observations), covers switches purchased from 1989 - 1996
 - Found fixed and per line costs

Application Should Be Denied Because of Improper UNE Pricing

- DOJ opposed application in its Oct. 27 evaluation
 - "There are reasons to suspect that in some cases [UNE] prices have not been based on the relevant costs of the network elements"
 - "UNE rates were incorrectly calculated in the MA DTE's 1996 order"
- Massachusetts AG opposed in its comments
 - "Unrebutted record evidence indicates that Verizon's UNE switching prices are excessive, not TELRIC-based, and create a prices squeeze that is a barrier to market entry for Verizon's competitors"
- Massachusetts DTE is only participant willing to defend DTE rates as cost-based
 - DTE defense highlights problems with rates
- Verizon's section 271 application must be denied

Other Non-Price Barriers to Competition

DSL Improvements Needed to Avoid Verizon Extending Its Bottleneck Control

- Data CLECs confirm carrier-to-carrier measures showing Verizon's performance is terrible
 - Verizon's excuses for poor performance do not show checklist requirements satisfied
 - Verizon attacks metrics, but any flaws must be corrected before Verizon's 271 application is granted
- Verizon has neither carrier-to-carrier data nor KPMG test data to prove its current line sharing performance (with Verizon supplying voice service)
 - There are no line sharing metrics in the carrier-to-carrier reports or in the Performance Assurance Plan (PAP)
 - Data CLECs report significant problems with line sharing today

DSL Competition Using Line Splitting Critical to This Application

- Line splitting (with CLEC providing voice service) critical to compete with Verizon's ability to team with any data CLEC
 - DTE has ruled that Verizon is not obligated to provide line splitting, despite the clear dictates of the FCC's Texas 271 Order
 - Verizon refuses to permit UNE-P for voice portion of split line
- Until Verizon concretely demonstrates that it will permit voice CLECs to use UNE-P to provide voice service where a data CLEC provides DSL over the same loop, this application must be denied

Performance Measures and Remedies Need Improvement to Prevent Backsliding

- Key advanced services are not included in the PAP or carry insubstantial penalties
 - No DSL line sharing metrics
 - Few other DSL metrics, and Verizon has not reported any results on two for which penalties are theoretically available
- Although DTE says PAP based on New York, it does not address significant differences, as DOJ noted
 - New York metrics and additional remedies regarding EDI notifiers are not included in Massachusetts, despite evidence that this problem persists there
- Performance remedies are alternative to contract damages, rather than cumulative as in NY, as is needed to give better deterrence and better remedies for individual harms

OSS: Verizon Has Failed to Prove Readiness

- No proof that Verizon's OSS is ready
 - Verizon has very little OSS experience
 - Verizon can't rely on New York experience
 - Third party testing not adequate, but revealed problems
- Missing notifier problem may appear (as in PA)
- Verizon not providing necessary technical assistance
 - Help desks are not helpful, and repeated escalation required
 - Poor documentation
 - Not cooperating in roll out of ExpressTrak
- Many other OSS problems exist
 - Verizon has excessive outages of pre-order OSS
 - Excessive manual processing (poor flow-through)
 - Billing systems lose track of CLEC payments

Conclusion: Under Telecom Act, Massachusetts Consumers Deserve Local Competition

- Requirements of the Telecom Act have not been satisfied
- The availability of unbundled elements is meaningless if there is a price squeeze for those elements
- Line splitting and other data issues must be resolved to permit competition
- OSS issues must be resolved and adequately tested prior to section 271 authorization
- Performance measures and remedies critical to prevent backsliding
- Verizon's section 271 application must be denied at this time

Appendices

Massachusetts (10/13/00) - Verizon (by zone)

	<u>MA--STATE</u>	<u>METRO</u>	<u>URBAN</u>	<u>SUBURBAN</u>	<u>RURAL</u>
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<u>Telco:</u>					
Unbundled switch port	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00
Unbundled loop	\$15.66	\$7.54	\$14.11	\$16.12	\$20.04
UNE switching & transport (3)	<u>\$10.50</u>	<u>\$10.41</u>	<u>\$10.50</u>	<u>\$10.50</u>	<u>\$10.50</u>
Total Telco (2)	\$28.16	\$19.95	\$26.61	\$28.62	\$32.54
Gross Margin	\$2.83	\$11.04	\$4.38	\$2.37	(\$3.67)

1 Includes line fee, usage, touch tone, 1 feature (call waiting @ \$2.84) and SLC. Reflects revenue in the Boston Area (~1/3 of Verizon-MA). Outside of this area, revenue would be \$2.12 lower or \$24.53. Therefore, revenue in the Suburban zone, and possibly the Urban zone, is overstated (as is the revenue in the state average).

2 Does not include \$0.19 NRC.

3 Reflects MA DTE's 09/07/2000 order, whereby switching applies only once on Intra-EO calls. Also reflects slight revision in call flow methodology.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

New York - Verizon (by zone)

	<u>State Average</u>	<u>Urban Zone 1</u> →	<u>Rural Zone 2</u>
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Access	<u>\$4.13</u>	<u>\$4.13</u>	<u>\$4.13</u>
Total Revenue (1)	\$36.87	\$36.77	\$37.04
<u>Telco:</u>			
Unbundled switch port	\$2.50	\$2.50	\$2.50
Unbundled loop	\$14.81	\$12.36	\$19.24
UNE switching & transport	<u>\$10.60</u>	<u>\$10.60</u>	<u>\$10.60</u>
Total Telco (2)	\$27.91	\$25.46	\$32.34
Gross Margin	\$8.96	\$11.31	\$4.70

1 Includes line fee, usage, 1 feature (Call Waiting @ \$5.19), and SLC. Reflects message rate product.

2 Does not include \$3.73 NRC.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

Texas - SBC (by zone)

	<u>State Average</u>	<u>Rural Zone 1</u>	<u>Zone 2</u>	<u>Urban Zone 3</u>
Households (000)	5,117	1,061	2,398	1,657
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UNE switching & transport	\$4.17	\$4.44	\$3.91	\$3.85
Total Telco (2)	\$21.22	\$26.67	\$19.71	\$17.93
Gross Margin	\$6.65	(\$0.04)	\$7.93	\$11.07

1 Includes line fee, usage, 2 features (Call Waiting @ \$2.80, Caller ID @ \$6.15), above average LD, and SLC. Reflects unlimited local product for Texas.

2 Does not include \$30.29 NRC.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

Pennsylvania - Verizon (by zone)

		Urban			Rural	
	State Average	Cell 1	Cell 2	Cell 3 "A"	Cell 3 "B"	Cell 4
Households (000)	3,398	226	618	1,364	184	1,007
Distribution	100%	7%	18%	40%	5%	30%
Revenue:						
Local	\$22.42	\$26.53	\$26.53	\$22.79	\$18.44	\$19.21
Access	<u>\$5.38</u>	<u>\$5.38</u>	<u>\$5.38</u>	<u>\$5.38</u>	<u>\$5.38</u>	<u>\$5.38</u>
Total Revenue (1)	\$27.80	\$31.91	\$31.91	\$28.17	\$23.82	\$24.59
Telco:						
Unbundled switch port	\$1.90	\$1.90	\$1.90	\$1.90	\$1.90	\$1.90
Unbundled loop (3)	\$14.01	\$10.25	\$11.00	\$14.00	\$14.00	\$17.50
UNE switching & transport	<u>\$5.02</u>	<u>\$5.02</u>	<u>\$5.02</u>	<u>\$5.02</u>	<u>\$5.02</u>	<u>\$5.02</u>
Total Telco (2)	\$20.93	\$17.17	\$17.92	\$20.92	\$20.92	\$24.42
Gross Margin	\$6.87	\$14.74	\$13.99	\$7.25	\$2.90	\$0.17

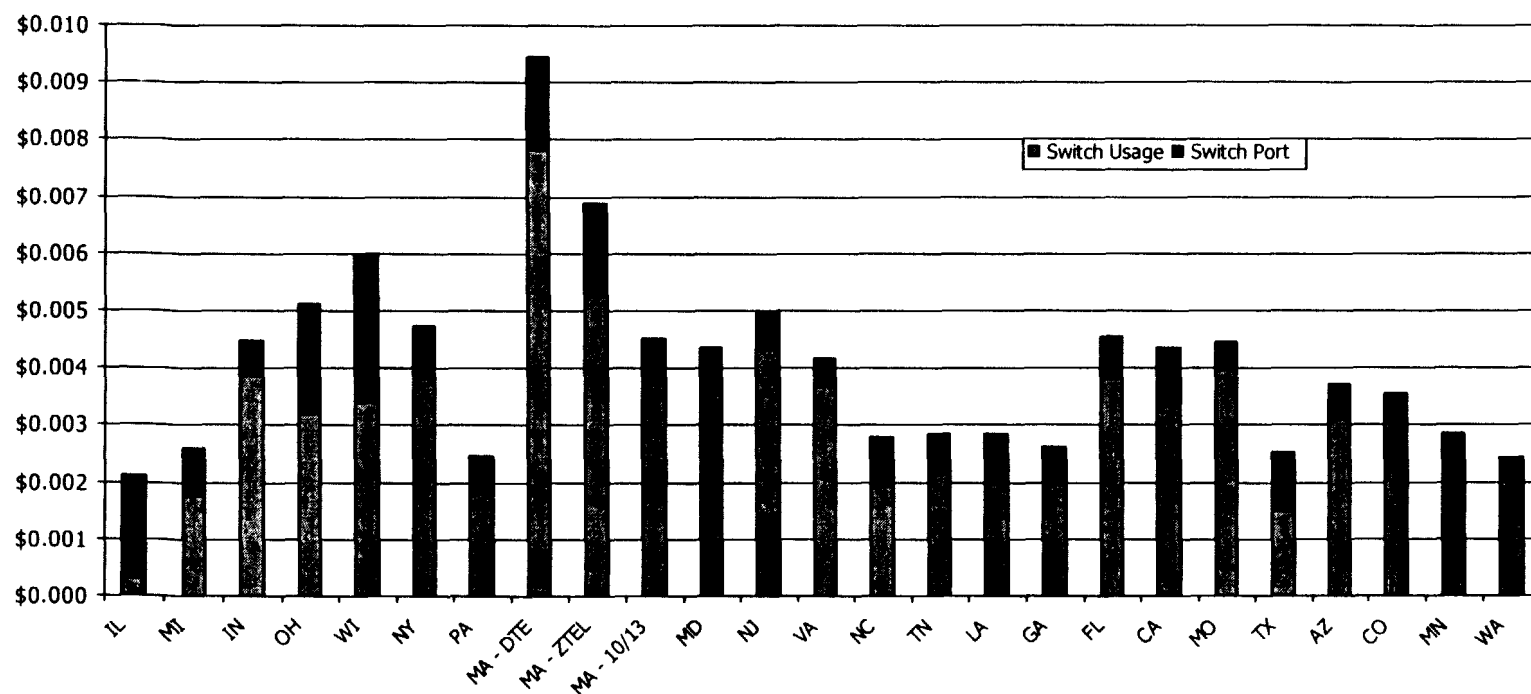
1 Includes line fee, usage, 1 feature (Call Waiting @ \$3.62), and SLC. Reflects Unlimited Band 1 product.

2 Does not include \$1.06 NRC.

3 The average loop rate corresponds to the tariffed rate to be effective 9/30/2000.

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Massachusetts' Switching Rates Compared to Other Large States



- Rates per minute in BOC regions of the largest states have been calculated by dividing the estimated monthly switching, transport and port costs per line by total local and long distance minutes (originating & terminating).
- The port charge in IL includes unlimited switching at no extra charge; the effective switching rate is the result of other elements, including transport.
- Reflects MA DTE's 09/07/2000 order, whereby switching applies only once on Intra-EO calls. Also reflects slight revision in call flow methodology.